

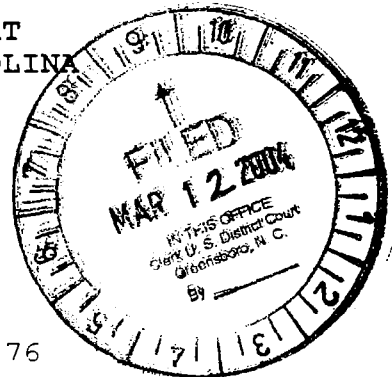
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IN THE UNITED STATES DISTRICT COURT  
FOR THE MIDDLE DISTRICT OF NORTH CAROLINA

SARA LEE CORPORATION and )  
SARA LEE GLOBAL FINANCE, L.L.C., )  
 )  
Plaintiffs, )  
 )  
v. )  
 )  
PRO SPORTS, INC. )  
(d/b/a "Champion Sports, Inc."), )  
 )  
Defendant. )

1:03CV00276



O R D E R

This matter comes before the Court on defendant's motion to file a second amended answer wherein it seeks to add two new counterclaims. It contends that motions to amend should "be freely given when justice so requires." Fed. R. Civ. P. 15(a). Plaintiffs (hereinafter referred to as "Sara Lee") oppose the motion on the grounds that it is untimely for being outside the time permitted by the case management scheduling order, that the amendment to add counterclaims would be futile, that the new facts allegedly discovered are irrelevant to the proposed causes of action, and that defendant was not diligent in timely filing the motion.

Defendant states that Sara Lee is the alleged owner of the registered trademark CHAMPION for a variety of goods, including apparel, sportswear, and sports equipment. Sara Lee brings this action claiming that defendant is violating that trademark for sports equipment. Defendant seeks to add two new counterclaims for abuse of process and unfair competition. According to defendant,

it only recently came into possession of evidence showing that Sara Lee is attempting to expand its rights through "improper use of the economic advantage of a large multi-billion dollar company." (Def.'s Br. at 1) Defendant contends that Sara Lee has embarked on an aggressive strategy which includes utilizing court process to improperly assert a far broader scope for the CHAMPION trademark than is justified. Defendant asserts that Sara Lee is aware that it does not have a right to challenge the use of the CHAMPION trademark by others, yet has used its economic power to force others to give away their valuable rights. Defendant concludes that such conduct constitutes abuse of process and unfair competition under North Carolina law.

The motion to amend was filed on October 27, 2003. Under the Joint Rule 26(f) Report, the parties had to and including September 1, 2003 to request leave to amend the pleadings. Sara Lee points out that defendant's request comes nearly two months after this deadline. However, discovery had not ended by that time.

An amendment to the pleadings may be denied if it is untimely and will produce prejudice, or is made in bad faith, or is futile. Johnson v. Oroweat Foods, Co., 785 F.2d 503 (4<sup>th</sup> Cir. 1986). Moreover, as explained in Forstmann v. Culp, 114 F.R.D. 83, 85 (M.D.N.C. 1987), when a party fails to offer a proposed amendment within the time mandated by a court order, it must make an additional showing of good cause in order for the Court to grant leave to amend. Sara Lee contends plaintiff has failed to show such additional good cause and requests the Court to deny the

motion to amend for being untimely, because it will disrupt the discovery schedule and possibly the trial, and because it would be futile. The Court finds that the amendment is not timely, will disrupt the proceedings to some degree, and is made in violation of the scheduling order. It also finds the amendment to be futile.

Starting first with consideration of the timeliness and prejudice factor, the Court understands defendant to contend that the new counterclaims will have no effect on discovery because defendant will only rely on the evidence which will be presented to the Court wherein defendant attempts to defeat Sara Lee's claim for copyright infringement. If true, that would be a factor favoring allowance of the amendment. See Frank M. McDermott, Ltd. v. Moretz, 898 F.2d 418 (4<sup>th</sup> Cir. 1990). However, as will be seen, the new counterclaims defendant wishes to present would necessarily involve much more than the evidence presented for the trademark claims that are presently before the Court and they would require additional discovery. In such circumstances, a tardy motion to amend may be denied. Lone Star Steakhouse & Saloon, Inc. v. Alpha of Virginia, Inc., 43 F.3d 922, 940 (4<sup>th</sup> Cir. 1995) (attempt to add fraud counterclaim). Moreover, this is not defendant's first amendment to the answer. Multiple amendments tend to show lack of diligence and they are more disruptive. The Court may take that factor into account as a reason for denying the motion. Chaudhry v. Gallerizzo, 174 F.3d 394 (4<sup>th</sup> Cir.), cert. denied, 528 U.S. 891, 120 S.Ct. 215, 145 L.Ed.2d 181 (1999). Considering, all of these factors, the Court finds that defendant has not shown sufficient

good cause and diligence in proffering its second amendment to its answer, wherein it seeks to allege two new counterclaims. Moreover, there would be some prejudice in the form of disruption by extra discovery of new issues at a late date. To the extent the delay and prejudice in this case could be viewed as not sufficiently egregious, the Court finds defendant's violation of the scheduling order to be determinative in the decision to deny the motion to amend.

Defendant defends its violation of the scheduling order by explaining that it had to wait to receive discovery from Sara Lee and then examine those documents in order for it to discover the material upon which it now bases its two new causes of action. This not is entirely correct. Part of the delay resulted from defendant's decision to review the documents in New Jersey rather than Winston-Salem, and then there was the month-long time defendant took in evaluating whether to file the motion. Moreover, the Court notes that at a different spot in its brief, defendant states that the evidence relied upon "is not limited to those exhibits." (Def.'s Reply at 4) Defendant does not identify this "other" evidence, report when it was procured, nor explain why, in light of the other evidence, the amendment to the answer could not have been made earlier. Providing an insufficient reason for the delay is a factor which the Court may take into account in deciding to deny a motion to amend, particularly when the amendment will have some substantial affect on the nature of the litigation. Deasy v. Hill, 833 F.2d 38 (4<sup>th</sup> Cir. 1987), cert. denied, 485 U.S.

977, 108 S.Ct. 1271, 99 L.Ed.2d 483 (1988). Considering these factors, the Court finds defendant has not shown good cause to amend the complaint after the time set for amendment in the scheduling order.

Next, the Court determines that allowing the motion would be futile because defendant has not stated adequate grounds for relief. Defendant argues that it has sufficiently alleged an abuse of process claim<sup>1</sup> by stating that Sara Lee is utilizing the Court's process to force defendant to give up its trademark rights, to wrongfully assert that its trademark rights are superior, and in so doing has an ulterior motive to eliminate defendant's superior trademark rights. To support these allegations, defendant attaches five exhibits.

According to defendant, these documents show that Sara Lee's predecessor-in-interest expressed opinions at various times that its trademark rights were not unlimited, in that there were 89 prior registrations of the mark Champion so that no registration could be afforded broad protection. Some of these remarks included purported concessions of limitation made at the Patent and Trademark Office. One of the exhibits encompasses a document protected by attorney-client privilege which was inadvertently produced. (The parties spend much time discussing whether a clause

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<sup>1</sup>Defendant only defends its abuse of process counterclaim. Therefore, the Court is justified in concluding that defendant does not oppose dismissal of the unfair trade practice counterclaim. Nevertheless, the Court is not aware of any North Carolina authority which would permit an unfair trade practice counterclaim in the situation presently before the Court.

in the parties' protective order, which saves inadvertent disclosure of protected material, should be enforced.) However, this document, like the others, involves a different trademark dispute which is not before Court, wherein outside counsel for Sara Lee's predecessor-in-interest expresses the opinion that other entities which own a trademark in Champion may have some superior trademark rights with which Sara Lee must contend. None of this evidence is relevant to defendant's claim for abuse of process under North Carolina law.<sup>2</sup>

The tort of abuse of process consists of misuse of legal process for an ulterior purpose. Stanback v. Stanback, 297 N.C. 181, 200, 254 S.E.2d 611, 624 (1979). It requires both an ulterior motive and an act not proper in the regular process of the prosecution. Id.

The ulterior motive requirement is satisfied when the plaintiff alleges that the prior action was initiated by defendant or used by him to achieve a collateral purpose not within the normal scope of the process used. The act requirement is satisfied when the plaintiff alleges that once the prior proceeding was initiated, the defendant committed some willful act whereby he sought to use the existence of the proceeding to gain advantage of the plaintiff in respect to some collateral matter.

297 N.C. at 201, 254 S.E.2d at 624.

In the instant case, it is clear that while defendant alleges an ulterior motive, there is no allegation of some willful act by Sara Lee not proper in the regular process of litigating its

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<sup>2</sup>Moreover, the evidence does not even pertain to defendant, but concerns alleged actions or motives of Sara Lee's predecessor-in-interest with respect to parties other than defendant.

trademark so as to constitute an attempt to improperly use the existing proceeding to gain an advantage. Boiled down to the essentials, the only thing defendant has alleged is that Sara Lee intends to use this Court's process to enforce its trademark rights. Such allegations do not constitute abuse of process, as was made clear in Melton v. Rickman, 225 N.C. 700, 36 S.E.2d 276 (1945).

In Melton, a debtor provided a creditor with a check which was allegedly to be used solely for the purpose of acknowledging the debt. After receiving repayment, the creditor attempted to cash the check and when it was not paid because of insufficient funds, obtained a warrant for arrest based on the bad check law. In a subsequent action for abuse of process brought by the debtor, the Court found there not to be a cause of action for abuse of process because the creditor did nothing in the underlying criminal proceeding except make a presentment to obtain the warrant. The Supreme Court of North Carolina held that initiating litigation with "[e]vil purpose alone is not sufficient." It further held that "'[r]egular and legitimate use of process, though with a bad intention, is not a malicious abuse of process.'" 1 Cooley, Torts, 3d Ed. 354." Melton, 225 N.C. at 704, 36 S.E.2d at 278. Yet, that is the extent of defendant's allegation in this case, which is that Sara Lee, relying on its economic power, has the ability to bring, and is bringing, this action in order to assert a far greater trademark right than that which it knows it actually has, and

thereby hopes defendant will capitulate. Defendant alleges ulterior motive, but fails to allege any improper act by Sara Lee.

It is possible that defendant intends to rely on the line of cases Justice Seawell referred to in his dissent in Melton, 225 N.C. at 705, 36 S.E.2d at 279. He makes the point that it would be possible under North Carolina law for abuse of process to lie with the required improper act being satisfied solely by initiation of proceedings with an ulterior purpose. He cites Jackson v. American Tel. & Tel. Co., 139 N.C. 347, 51 S.E. 1015 (1905), where an abuse of process action was permitted against a defendant who swore out a warrant for arrest based on trespass. It was found that the arrest warrant was obtained for the ulterior purpose of securing the plaintiff's absence so that poles and wires could be strung on the plaintiff's land in his absence.

The North Carolina Court of Appeals has accepted and applied Justice Seawell's caveat if there is clear evidence that the filing of an action was done with an ulterior motive to accomplish something not within the proper scope of the lawsuit. Such a filing may constitute abuse of process without there being an act occurring in the proceeding after the filing. In Hewes v. Wolfe, 74 N.C. App. 610, 330 S.E.2d 16 (1985), an abuse of process suit was allowed against defendants who filed notices of lis pendens and liens where there was evidence to show that these actions were done for the ulterior purpose of ruining plaintiffs and cutting off their funds. However, the Court made it clear that the mere filing of a lawsuit cannot constitute abuse of process without evidence of



a motive to use the action for a purpose that goes beyond the legitimate scope of the lawsuit. Thus, in a separate appeal related to Hewes v. Wolfe, the attorney-defendant in Hewes v. Wolfe, who had filed the notices of lis pendens and liens, filed his own abuse of process action in response to the abuse of process action brought against him. The court found that this third-party abuse of process complaint could not survive a motion to dismiss when the only ulterior motive alleged was harassment, and the only allegation of proof was the filing of the lawsuit. Hewes v. Johnston, 61 N.C. App. 603, 301 S.E.2d 120 (1983).

Even assuming that the North Carolina Supreme Court permits the improper act element of an abuse of process action to be based on the filing of a lawsuit, defendant in the instant case still has not alleged such a cause of action. Defendant alleges that Sara Lee filed this action with the intent to use it and the attendant expense of litigation in order to force defendant to give up its trademark rights, and that Sara Lee is wrongfully asserting a claim of a greater trademark right than it actually has.<sup>3</sup> These claims, which only amount to allegations that the suit was brought with ulterior motives or was false, malicious or vexatious, do not state a claim for abuse of process. Stanback, 297 N.C. at 202, 254

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<sup>3</sup>Implicit in this argument is the unexpressed assertion that Sara Lee hopes to wear defendant down and force it to accept an unfair settlement. However, if this were allowed to become the basis of an abuse of process claim, then every lawsuit filed would itself serve as cause for an abuse of process counterclaim. And it would further mean the end to settlements because such an offer by a plaintiff would be an act proving that the plaintiff brought an exaggerated claim with the ulterior purpose of achieving a settlement.

S.E.2d at 624; Petrou v. Hale, 43 N.C. App. 655, 659, 260 S.E.2d 130, 134 (1979), rev. denied, 299 N.C. 332, 265 S.E.2d 397 (1980). Defendant fails to cite evidence that Sara Lee is using this action for any purpose outside the legitimate scope of relief obtainable in such actions. Therefore, the motion to add the counterclaims will be denied for being futile.

**IT IS THEREFORE ORDERED** that defendant's motion to file a second amended answer (docket no. 30) in order to allege two new counterclaims for abuse of practice and a violation of the North Carolina Unfair Trade Practice law be, and the same hereby is, denied.

  
United States Magistrate Judge

March 12, 2004